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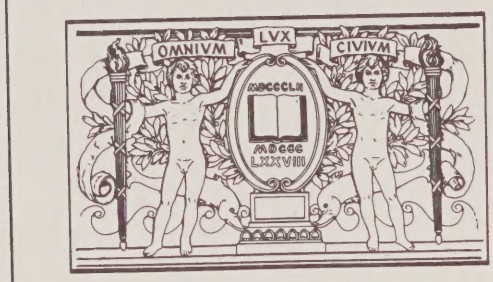

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Revised May 15, 1985

IV. Boston: The Economic Outlook

Boston's booming economy and population revival point to very good prospects for growth as a place to work and a place to live. The transformation has been largely downtown oriented, however, and fewer of the benefits have yet flowed into the poorer neighborhoods where most of the cities' population lives. The expanding concentration of minority and poor population has lagged behind, real income has eroded, poverty has increased, housing has become scarce, and gentrification holds a threat of displacement. Paradoxically, the state's antiquated tax system has prevented Boston's fiscal structure from benefitting suitably from the economic boom, and there is a real shortfall of revenue to meet essential service needs. Boston has been held on a tight fiscal leash by federal aid outbacks, state parsimony, and tax limitation legislation. City public services have had to be reduced.

Boston's experience of poverty amidst affluence, and of revenue shortfalls, demonstrates that development alone does not solve all of Boston's problems. Even replacing federal aid is not everybody's salvation. The City's housing stock and infrastructure are old, and there are poor people's needs for programs for health and housing. The City's strategy is to use the development boom to channel resources and expanding opportunity to Boston's neighborhoods. Boston will continue to be a city open to all - the rich and multi-varied cultures from the far corners of the earth, as well as to the vibrant young adults attracted by jobs and amenities. Boston is counting on fiscal fairness from the Legislature and State Government. Boston will do all in its power to meet the needs of the poor with imaginative and dedicated programs.

Boston's emergence as the Nation's most preeminent services activity center, with specializations in those communications, finance, and business and professional services activities expanding most rapidly, looks well for the

outlook for jobs and development. Boston is also in the forefront of the new population wave, the rapidly growing number of small households, and this together with the expanding minorities have reversed 30 years of population decline. But a critical housing shortage is upon us, poverty has increased and public services have been forcefully reduced. These key aspects of Boston's present and future - growth in jobs and development, population revival, fiscal stringency, and the spread of poverty - are reviewed in the following pages.

Economy and Population Overview

For almost a decade (since 1976) Boston has excelled in employment growth and development. In addition, after thirty years of decline population has been rising since 1980. The year 1984 was one of record levels of employment growth, development investment, property tax yield gains from development and growth in property value. Moreover, recent reported comparisons reveal that Boston's performance is unique among the nation's cities, indicating that Boston is special.

Boston's future is bright, with positive prospects for economic growth and population revival. For the 1985-95 decade job gains are projected at over 100,000. Private development investment in the 1985-95 years will accommodate the growth in the economy with a projected $6.2 billion of new construction, exceeding last decade's record level. Development projects underway, scheduled and planned for completion in the (1985-1988) four-year period total $2.7 billion. For commercial development (office, retail, hotel) the sizable flow of significant developer proposals suggests that there will be an adequate level of supply of new structures to meet the projected large growth in demand for space. In the case of housing, however, adequate supply prospects have yet to emerge, even with new construction, fix-up and conversion of 14,000 dwellings since 1980, and a roster of 7,500 housing unit construction project proposals currently under review.

Over the next ten years, Boston will need to build 35,000 to 50,000 dwelling units, including a projected 26,000 net new units, to accommodate population growth and the increasingly larger number of smaller households. Linkage payments of $100 million are projected for the decade.

Performance 1976-84

Major indexes of growth and development attest to the outstanding performance of Boston's economy. Since 1976 employment has been rising with a gain of 77,000 jobs.[1] A development investment boom which accelerated after 1979 brought $4.4 billion of private development project completions during the 1976-84 period, 14,000 dwelling units were either built, rehabilitated or converted.[2] A modest growth in population has emerged reflecting a new wave of young households who prefer city living, and reversing 30 years of decline.[3]

Structural transformation of the Boston economy favors a broad range of money management and services activities expanding most rapidly nationally. In the 1976-84 period the city's 77,000 net job gain centered principally in communications, money management and services. These included a growth of 14,000 jobs in business and professional services, 17,000 in higher education and medicine, 15,500 in finance, and 7,000 in communications--together making up more than 80 percent of the advance in employment levels. Other gains were in retail trade (7,500) and hotels (2,500) whereas net losses occurred in manufacturing and wholesale trade.

In the 1976-84 period, the growth in employment was accommodated by $4.4 billion of development construction including: 15 million square feet of new, rehabbed or converted office space; 2.4 million square feet of retail space; 6,088 new and renovated hotel rooms; 6.7 million square feet for medical and higher education institutions; 7 million square feet of industrial space; 225,000 square feet of exhibition space; 263,000 square feet of recreation and cultural facilities; and 5,000 parking spaces.

A new wave of population and household growth has emerged in the last ten years. This new era is a result of the coming-of-age of the post-war babies who are now forming households at a spectacular rate. This is part of the most rapidly expanding population group in the nation and in Boston - the shift to smaller households--most frequently one and two-person households with a preference for city living, attracted by Boston's jobs and amenities. In Boston, one and two person households accounted for 66 percent of all households in 1980.[4] Though population for the city as a whole had declined in the 1970-80 period, population growth did occur in the more centrally-located neighborhoods, and in many Boston neighborhoods households increased even where population fell.

As a consequence of these phenomena exacerbating housing demand coupled with inadequate supply of new housing construction, Boston is experiencing a marked housing shortage and value growth is rising spectacularly. The average value of a single-family home in Boston has more than doubled, increasing from $25,000 in 1975 to $63,000 in 1984.[5] A major local bank research office, tracking institutional lenders, reports that average mortgage loans (usually 80 percent of value) rose from $45,000 in 1980 to $55,000 in 1983 to $65,000 in 1984. Moreover, a National Association of Realtors' survey issued in February reported that Boston area housing costs in 1984 rose faster than anywhere else in the nation--a resounding 23 percent.[6] No neighborhood has been immune from the effects of the housing shortage and the rise in housing cost.

Boston Economy, 1984

In 1984, Boston far exceeded the rate of growth and development experience of the 1976-84 years in employment gains, development construction, tax revenue from development, and low rates of unemployment. There were record-breaking rates of office space completions coupled with high absorption of new space by expanding firms. Hotel occupancy rose even as new hotel rooms came on to the

market. Retail trade employment had a substantial increase as new retail facilities were completed. Eating and drinking places now make up one-third of retail employment to serve the growth in downtown residents, office workers and visitors.

Boston's employment gain of 18,000 in 1984 was twice the annual average gain in the 1976-84 period.[7] Development project constructions completions at $1,125 million in 1984 were twice the annual average rate of the post-1976 years.[8] The $22 million increment in the property tax yield from development was notable and was second only to the increase in state aid in the FY85 gain in the city's fiscal resources.[9] The Boston unemployment rate of 4.4 percent in December 1984 was the lowest in 15 years.[10] Private development office project completions of 3.6 million square feet of new space, and the absorption of 3.2 million square feet compare with the post-1976 average of 1.3 million.[11] Hotel occupancy rose to a health 70 percent rate even as 1,145 new hotel rooms came on to the market.[12] Retail trade employment expanded, in 1984, at more than double the rate of the 1976-84 years.[13]

Boston Economy, 1985 and 1986

Boston's employment boom will continue in 1985 and 1986. The economic base will be broadened with very substantial new investment. Employment growth is projected at 10,000 in 1985 with an equal number in 1986, compared to the 1984 18,000 job gain.[14] In 1985, development will require 14,000 person-years of construction employment and 9,000 in 1986. These will be accommodated by development project completions scheduled at $857 million and $476 million in 1985 and 1986, respectively, in comparison to the 1984 record year total of $1,125 million (measured in terms of 1984 construction cost).[15] Development-generated property tax growth is projected at $15 million in FY86 and an additional $14 million in FY87, in contrast with the FY85 increment of $22 million (all estimated by the City of Boston Assessing, Treasury and Budget

Departments).[16] Development Impact Payments agreements are expected to total $50 million (including the $33 million accorded in FY85).[17]

Office space completions (new construction, conversion, and rehab) are scheduled at 3.2 million square feet for 1985, and 1.9 million square feet in 1986 in contrast with the 5.2 million completed in 1984 (including the State Transportation Center Building). Retail trade development project completions are scheduled at 387,000 square feet in 1985 and 339,000 square feet in 1986 in comparison with 848,000 square feet in 1984. Medical and higher educational institutional expansion is scheduled at 347,000 square feet for 1985 and 1986, whereas 700,000 square feet were finished in 1984. Industrial space completions will be larger, countering the trend, with scheduled completions o 2 million square feet in 1985 and 1986, in contrast with the 1.2 million completed in 1984. To the city's stock of hotel rooms, 1,310 rooms will be added in 1985 and 1986, through new construction and renovation. The 1984 hotel addition was 1,145 rooms. The scheduled housing completions in 1985 and 1986 of 6,300 dwellings (new construction, conversion and rehab) is substantially larger than the 1,805 competed in 1984.

Future Boston

Boston's future is bright. Employment projections for the 1985-95 decade prepared by relating detailed analyses of industry trends in Boston to long-term projections for the U.S. economy by industry, indicate a prospective growth of over 100,000 jobs in Boston.[18] Boston's unique concentration in communications, money management and finance, business and professional services, and the ties to the region's thriving hi-tech industry will be the principal motor of expansion. There will be a growth of 56,000 office jobs representing a one-third increase over the 1984 level of office employment. Manufacturing jobs will increase by 10,500 or one-fifth over the 1984 level.

Hotel employment will grow by 5,400 equivalent to an 80 percent increment above the 1984 level. Retail trade employment is projected to increase by 9,000, a growth of 16 percent, in the 1985-95 period.

During this 1985-95 period, employment growth would be accommodated by a projected private development investment of $6.2 billion compared with the actual 1976-84 private development investment of $4.4 billion, and the $2.7 billion of private development projects currently underway, scheduled and planned for completion in the 1985-88 years (measured in terms of 1984 construction cost, excluding the cost of land acquisition and financing).[19]

Boston's population, estimated at 580,000+ in 1985 represents a growth of 17,000 since 1980 and is the first significant increase since 1950. By 1995 the population is projected to rise to 620,000, an increment of 40,000 or +7 percent.[20] The number of households will grow more rapidly, placing greater demand pressure on housing requirements. With a growth of 14,000 since 1980, households in 1985 are estimated at 232,000, and expected to expand to 258,000 by 1995, signifying a 1985-95 increase of 26,000 or +11 percent.

Over the decade Boston would need 26,000 net new dwellings. With allowance for replacement, this translates into an annual need of 3,500 to 5,000 dwelling units a year over the ten-year period. This projected need compares with the 1970-80 addition of 28,000 dwellings, mostly publicly-assisted (and the removal of 19,000), the construction of 14,000 dwellings in the 1980-85 period, and the 7,500 dwelling unit projects currently under review by the BRA.[21]

Boston And The Nation's Large Cities

Boston is a special city. Boston is the preeminent services activity city among the nation's large cities. In 1980, Boston, San Francisco, and New York ranked first, second and third among the nation's large cities, with 54, 51, and 49 percent of their respective employment concentrated in the broad range

of office-related services activities--communication, finance and money management, business and professional services. These cities also have the largest relative roles as exporters of services. Their share of services employment geared to exports ranges from 41 percent in Boston to 28 percent in New York and 26 percent in San Francisco.[22]

Boston and the metro area are also setting records in employment growth and unemployment decline. Since 1976, employment in Boston, the metro area, for that matter New England, has increased more rapidly than for the nation as a whole.[23] In December 1984, New England had the lowest regional rate of unemployment in the nation, Massachusetts the lowest unemployment rate of any state, and the Boston metro area the lowest unemployment rate of the 236 metropolitan areas in the country. Boston's unemployment rate of 4.4 percent was the lowest in fifteen years.[24]

Boston leads in the new wave of population growth and household formation favoring the flow to the cities. In 1980, one and two-person households made up 54 percent of all households in the nation compared to two-thirds of all households in Boston.[25]

Boston's downtown area ranks high in terms of economic vitality. A 1983 study published by the Urban Investment and Development Corporation (UIDC) of Chicago examined 56 indicators of the downtown growth of the 38 largest metro areas.[26] Their analyses found that Boston's downtown ranked fourth in market strength, fifth in economic growth and improvement, fourth in retail trade as well as the downtown housing market, and fifth and sixth in office and hotel markets, respectively. In addition, UIDC's 1984 report on downtown office construction of the nation's thirty largest metro areas showed that office development erupted in the 1950s (following a thirty-year lag after the boom of the 1920s), and has been accelerating in the 1970s and 1980s, with Boston gaining rank over the 1950-84 period.[27] Boston ranked eighth in office

construction in the 1960s and fourth in 1984. The UIDC report also ranked Boston's mid-1984 office vacancy rate low in comparison. Boston's hotel market is strong. Among 25 major cities, Boston's hotel occupancy rate ranked sixth highest in 1984.[28]

Boston's Fiscal Dilemma

Though Boston's economy has been expanding, revenue resources available to the city are far less than that of a decade earlier. Boston has fallen victim to an obsolescent 19th century state tax structure leaving it as the only large city in the nation dependent on one principal tax source only (the property tax). Federal aid reductions have exacerbated the City's fiscal situation. As a consequence, municipal services have been cut back leaving unmet needs. Boston municipal employment has been reduced from 25,000, in 1975, to 20,000, in 1985, a decline of 20 percent.[29] Boston municipal expenditures, measured in dollars of constant value, have fallen by one-third since 1975.[30] Boston's revenue as a share of Boston's economy (gross city product) has been slimmed by one-third, decreasing from 6 percent, in 1976, to 4 percent, in 1984.[31]

Boston's 19th century revenue base cannot provide the services needs of 20th century neighborhoods and a 21st century city economy.

Poverty And Affluence

While Boston was achieving new records of growth in employment and development investment, poverty was spreading in the City's neighborhoods. Between 1970 and 1980, the share of families in poverty increased from 11.3 percent, to 16.7 percent.[32] In the latter year, 20 percent of all households (family and non-family) had incomes below the poverty level.[33] While a local newspaper headlined the Governor's "State of the State" message earlier this year as "An Invitation to Paradise in Massachusetts", Boston's inner city youth continue to have dreadfully high rates of unemployment.[34]

Boston's Strategy And Related Needs

Boston's extraordinary process of development will be tapped to advance opportunity in the City's neighborhoods. Enlightened state legislation and state government action must be achieved to strengthen the City's revenue base and the capacity to meet public service needs. Private development resources and public revenues must be marshalled to provide the programs needed to better the condition of the poor. This is the outlook of the City of Boston.

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